

The State holds very highly its citizens' lives, health, security, prosperity, education and excellence in physical and spiritual development

*Saparmurat Niyazov*¹⁸

Niyazov's focus on Turkmen nationhood and 'the Turkmen people' in practice results in the active suppression of a large populace of other ethnicities (estimates range from 300,000 to 1 million citizens), some of whom, including ethnic Uzbeks and Armenians, have lived in Turkmenistan's territory since before the foundation of the Soviet Union. All Kazakh, Uzbek and Armenian language schools have closed and only one Russian language school exists in Turkmenistan's capital, Ashgabat. Ethnic Turkmen are often preferred to candidates of other ethnicities when seeking employment,¹⁶ and non-Turkmens often find their applications to higher learning or other institutions blocked.

This ethnic discrimination is encouraged by Niyazov himself, as can be heard in some of his more sinister pronouncements: 'In order to weaken the Turkmen, the blood of the Turkmen was diluted in the past. When the righteous blood of our ancestors was diluted by other blood our national spirit was low. Every person has to have a clean origin. Because of that it is necessary to check the origin up to the third generation.'¹⁷

'The Worst of the Worst' (Freedom House)

The international media often concentrates on the black comedy aspect of Niyazov's personality cult, highlighting its absurdity and increasing madness. Yet this often masks the very real human rights abuses that take place on a regular basis in Turkmenistan, where the personality cult is a serious issue; Turkmenistan is rapidly slipping away from the world under the one-man show of its president.

In one of its more lucid moments the *Rukhnama* maintains, 'Turkmenistan accepts international human rights standards accepted by other members of the international community,'¹⁹ a statement reiterated in the Turkmen constitution. But, as an OSCE report stated in 2003, 'the contrast between the law as it is presented and the reality marked by terror and fright is mind-boggling.'²⁰

Freedom House, a respected American non-governmental organisation, has given Turkmenistan the lowest possible scores for both political rights and civil liberties for 11 years running. Such scores are reserved for countries with 'the broadest violations of civil liberties, including freedom of speech, rule of law, and personal autonomy', the 'worst of the worst' which puts Turkmenistan on a par with seven

other countries with appalling human rights records and a lack of personal freedoms: Burma, Cuba, Libya, North Korea, Saudi Arabia, Sudan and Syria.²¹

The human rights situation in Turkmenistan has deteriorated since an alleged assassination attempt on Niyazov in November 2002. Though the Turkmen authorities released little information concerning this incident, when Niyazov's motorcade was allegedly strafed with gunfire,²² over a hundred people were subsequently arrested, with some 67 people charged and 46 convicted²³ after sentencing in what the OSCE dubbed 'show trials'.²⁴ According to the US Department of State: 'There were credible reports that authorities detained and threatened to torture relatives of those implicated in the attack to coerce confessions, that relatives of those implicated in the attack were beaten with water bottles to avoid bruising, injected with psychotropic drugs, and subjected to electric shock torture, and that their female relatives were sexually assaulted and threatened with rape.'²⁵

In October 2003, the European Parliament published its resolution on Turkmenistan, which stated that: 'Turkmenistan is consistently violating all its obligations under ... international Conventions' and 'the already appalling human rights situation in Turkmenistan has deteriorated dramatically recently, and there is evidence that this Central Asian state has acquired one of the worst totalitarian systems in the world.'²⁶

Those who escape Niyazov's regime often have terrible stories to tell. A civil law attorney, jailed for three years after defending a woman who allegedly lost her job because of her religious faith, stated to the UN regional news network: 'There are no constraints on the police, interrogators or national security officials in using torture. They are given full authority to do as they wish ... I knew two people, both physically fit, who were tortured to death. What they did to these men behind the prison's walls cannot be described.'²⁷

Niyazov stated in 2005 that 'there is not a single person held in Turkmen prisons for political motives or ideas'²⁸ and maintained, 'there can be no greater democracy than this'.²⁹ Yet currently only one political party is allowed in Turkmenistan – Niyazov's 'Democratic Party'. In 1999, a Turkmen citizen who announced he was forming a political party in Turkmenistan was arrested several months later

12 *It's a Gas—Funny Business in the Turkmen-Ukraine Gas Trade*

Backs turned on human rights. *Global Witness*

and then jailed, having been found guilty of embezzlement of state property.³⁰ And in 2004, Amnesty International reported that a man who had written to Niyazov asking if he could hold a peaceful demonstration against the government's policies was arrested and placed in a remote mental asylum.³¹

Travel within Turkmenistan is strictly monitored; during a cross-country journey by car, one would expect to pass through a checkpoint about every half an hour. Prior police permission is needed to visit two of the country's five provinces. 'You need a permit here to go to the toilet,' joked one man grimly to Global Witness.

Reporters sans frontières, an NGO that examines press freedom, ranked Turkmenistan's media as the third least free out of 167 countries, with only North Korea and Eritrea being worse.³² A 2002 OSCE report on Turkmenistan noted the 'absolute monopoly of the state over all media'³³ and went on to say 'censorship in Turkmenistan is total'.³⁴ An OSCE representative wrote to Turkmenistan's foreign minister, concerned over 'the absolute lack of any freedom of expression' within Turkmenistan.³⁵

Any independent journalists willing to stay in Turkmenistan face serious consequences for speaking out. In September 2003, a Turkmen Radio Free Europe/Radio Liberty (RFE/RL) correspondent, who covered sensitive subjects such as the government's human rights record, was arrested and detained for three days. He claims he was injected with an unknown substance and was told he faced 20 years imprisonment for 'creating problems' through his journalistic activities.³⁶ Two months later, after continuing his work, he was reportedly huddled into a car, beaten and left at the side

of the road after being threatened with being buried alive.³⁷ He has since found political asylum in the United States.

And as Global Witness went to press, another two RFE/RL journalists had allegedly been detained by authorities without due process. They were released after ten days in custody. One later said to RFE/RL: 'They told us not to speak out against government policies, saying if we did not follow what they said they would 'smash us' and they wouldn't stop with this and continue dealing with our family members and children in the same way.'³⁸

Economic growth... or collapse?

Since 1999, Turkmenistan's official statistics have boasted very high rates of economic growth, averaging 18% annually,⁴⁰ including a 21% increase in gross national product from 2004 to 2005.⁴¹ This would make the country one of the fastest growing economies in the world.

However, official data from Turkmenistan are highly unreliable and other reports point to a less healthy situation. As the World Bank states, the lucrative profits from the sale of gas and oil 'mask serious structural problems with the Turkmen economy ... among all CIS countries, Turkmenistan has progressed the least in terms of economic reforms since independence.'⁴² Yet according to Turkmen authorities, reporting to the International Monetary Fund (IMF), this actually benefits the people: 'The authorities believe that their cautious approach toward economic liberalization has served Turkmenistan's people well and delivered more desired results in terms of the people's well-being.'⁴³

Whatever the true figures for economic growth, the money is not benefiting the people of Turkmenistan. The United Nation's Human Development Indicators (HDI), which assess countries on standards of health, education and quality of living, are sliding in Turkmenistan. In 1991, Turkmenistan's HDI score was ranked 31st in the world. In 1995, Turkmenistan was ranked 86th out of 174 countries, slipping to 100th in 1998 (when gas exports reached an all-time low).⁴⁴ In 2005, the country was ranked 97th out of 177 countries.⁴⁵ The World Bank's estimate of the percentage of the population living in poverty is 58%.⁴⁶ According to the US Department of State, unemployment is estimated at 50% in urban areas and as high as 70% in rural areas, where the majority of the population lives.⁴⁷

Sources in Turkmenistan also expressed concern to Global Witness about the problem of heroin addiction which, according to the Institute of War and Peace Reporting, citing the United Nations, has increased 17-fold from 1991 to

When wealth is acquired in improper ways, the moral structure of society is harmed, and society is damaged gradually ... I do get upset when I see that some people are spending money on improper deeds. Learn more about how to spend when one is wealthy. When you earn, spend so that your expenditure benefits your nation, relatives and family!

*Saparmurat Niyazov*⁶⁴

2002.⁴⁸ This, combined with the growing numbers of women forced into prostitution, makes the threat of HIV infection loom large. Turkmenistan's healthcare is already woefully underfunded; an undercover BBC reporter caught a first-hand glimpse of the shockingly low standard of care. The journalist reported seeing: 'A man [with] blood pouring out of his nose, [who] looks like he has been in a car accident. I watch as a nurse uses a dirty rag from the sink to clean his wounds. He is roughly handled even though he may have fractured his spine.'⁴⁹ In the autumn, doctors, like most people in Turkmenistan, are sent into the fields to pick cotton. In 2004, Niyazov ordered thousands of nurses to be replaced by conscript soldiers, and even advised that all medical facilities outside of Ashgabat (where only 10% of the population live) should be closed, saying 'Why do we need such hospitals? If people are ill, they can come to Ashgabat.'⁵⁰ Though there are reports that provincial hospitals are still operating, these cost-cutting measures suggest that cracks are beginning to show in the Turkmen budget.

As this report went to press, further drastic cuts appear to have been imposed: state sick leave and maternity benefits have been reduced, and senior citizens have had their pension entitlement either removed or cut by a third.⁵¹ The pension cuts will affect 400,000 people, leaving approximately 100,000 without any entitlement.⁵² The Turkmen Ministry of Foreign Affairs stated that the information was 'deliberately perverted' by Russian media outlets,⁵³ but reports from inside the country by non-Russian sources seem to confirm that these cuts have been carried out, causing widespread fear and chaos.⁵⁴

The Turkmen government has so far managed to placate the people with heavy subsidies, making water, gas and salt free, and housing, petrol and flour cheap. Yet in April 2004, Niyazov admitted on television that many public sector workers had not been paid for at least six months, and that the arrears totalled up to US\$286 million.⁵⁵ The IMF concluded in an unpublished report:

The build-up of payment arrears raises substantial doubt over the government's claims to be successfully managing the budget. Moreover, given the high level of export revenues ... and the healthy trade

surplus – reported in recent years, the government should in theory have sufficient resources to meet public sector salaries in full...⁵⁶

The true extent of the structural problems is difficult to ascertain due to the fact that Turkmenistan's economic governance is almost completely opaque. An ordinary Turkmen citizen is unable to obtain any information on what the government is up to. Surveillance by international financial institutions such as the IMF and the European Bank of Reconstruction and Development (EBRD) has broken down in recent years. As the Economist Intelligence Unit wrote in 2004: 'Almost no budget data have been released since 2002, suggesting that the government is finding it increasingly difficult to present the budget accounts in such a way as to hide a growing structural deficit.'⁵⁷ Although Turkmenistan allowed the IMF to conduct a consultation in 2004, it is understood that the bare minimum information was released.⁵⁸ The report itself also remarked on the 'political interference in the processing and dissemination of data [of macroeconomic statistics].'⁵⁹

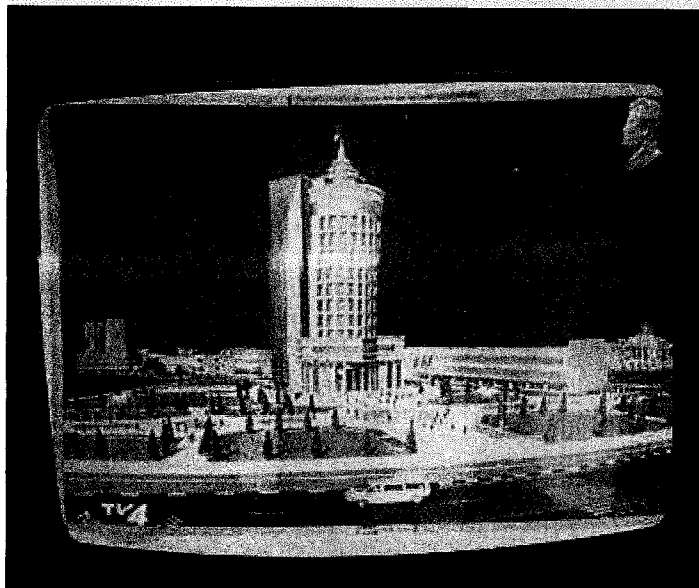
A financial expert who worked for several months in Turkmenistan told Global Witness that he 'had no faith' in the government's official data 'at all ... what was worse is that when you got something you always wondered what it meant, they were not drawn up to any set of standards ... There is no independent audit function here so there is no basis for believing what limited financial information is provided ... Nothing can be completely relied upon.'⁶⁰

One major problem is that since 1998, the exchange rate of Turkmenistan's national currency has been fixed at 5,200 Turkmen manat per US\$1.⁶¹ However, virtually all trade takes place at the unofficial rate – currently around 25,000 Turkmen manat per US\$1. The dual exchange rate allows the Turkmen authorities to present certain economic statistics in the best light. For example, the average state income is US\$2,400 per annum at the official exchange rate; in reality, in local currency the wage is worth around US\$500 per annum.

Internal sources and other observers report Turkmenistan's method of budget management to be chaotic and incomprehensible. The financial expert who had worked in Turk

14 *It's a Gas—Funny Business in the Turkmen-Ukraine Gas Trade*

A future built on gas: Turkmenistan's 'Golden Age'?



The fantasy is glittering... Global Witness

Turkmenistan relies on its gas for its survival: 70% of Turkmenistan's income comes from its natural resource exports.⁶⁵ Niyazov himself has stated that 'Turkmenistan's future completely depends on oil and gas.'⁶⁶

Despite the fact that, in the *Rukhnama*, Niyazov writes 'within the borders of Turkmenistan the natural resources ... are the people's national wealth and property',⁶⁷ most of the money from the sale of Turkmenistan's gas and oil does not appear to be reaching its citizens; it is being used to create the façade of the President's self-proclaimed 'Golden Age'.

To create an appearance of splendour, Niyazov has embarked on a massive spree of expensive construction projects, mostly in Ashgabat, the capital city. Global Witness has calculated on the basis of press reports that, in the 15 years since independence, the amount of announced spending on building projects by just two of the many construction firms has surpassed US\$3.5 billion. The total amount spent on building projects by the Turkmen government is likely to be many times this amount.

The new buildings include a presidential palace, a national museum (with a whole wing devoted to Niyazov's achievements), a golden-fronted Central Bank

and a series of high-rise apartment blocks built from imported Italian marble. His recent proposals have grown more outlandish: an ice-palace (in a country where temperatures can reach 45°C) and the 'Disney-land World of Turkmen fairy tales' pleasure park.⁶⁸

A financial expert spoke to Global Witness about the senselessness of some of the projects. In 2000, a new complex consisting of a hotel, a restaurant, a hospital, a business centre, and a day-care centre was proposed. It was clear that the expensive project had not been evaluated for economic feasibility and, worse still, a similar complex had already been built – about half a mile away.⁶⁹ The spending for such prestige projects takes place off-budget. As the European Bank for Reconstruction and Development states, 'if such [investment] projects are funded outside the budget, a proper and publicly accountable evaluation process would seem to be impossible.'⁷⁰

A senior official from an international financial institution told Global Witness that government ministers often hold money on behalf of Niyazov and are allowed to use a small percentage. This is usually put into construction; in Ashgabat, there is a series of 25 hotels standing next to each other, each named in relation to a particular ministry, with fewer than 20 rooms in each that are hardly, if ever, used.⁷¹

... but the people are still waiting for prosperity. Global Witness



menistan told Global Witness that budgets he had seen from the health ministry did not record specific expenditures, but only recorded net amounts, hiding capital projects and other costs. To make matters worse, the budget has two components, cash and non-cash payments – the treasury has only enough money to give a portion (possibly about a third) of a ministry's appropriation in cash (used for salaries).⁶²

Following a series of high-profile sackings in 2005 (see box: *Chaos at the Central Bank*), an anonymous source in the Turkmen Ministry of Economics and Finance told the Institute of War and Peace Reporting: 'Neither the president nor the newly-appointed senior officials are aware of the true situation either in the country as a whole or in specific sectors. None of the new people will dare present the true picture to Niyazov. That implies that we're going to keep on moving towards a total [economic] collapse.'⁶³

Turkmen public finances: many questions of transparency and good governance

The Turkmen public finance system has, confusingly, two levels or 'tiers'. The first tier is the normal state budget. The second tier covers extra-budgetary operations and revenues, and the spending of industrial complexes and industrial state funds. These extra-budgetary operations dwarf the money in the first tier, as confirmed by the IMF: 'The state budget ... excludes the operations of the state funds and the self-financing ministries, which constitute some 75-80% of central government operations.'⁷²

This massive amount of opaque spending outside of the budget makes the budgetary data that is released highly unreliable; the citizens of Turkmenistan cannot see how much money is being spent on them, and where and to what purpose money is being transferred. At the end of 2005, the Turkmen parliament approved total spending for 2006 of 81.3 trillion manats, US\$15.6 billion at the official exchange rate, or US\$3.3 billion at the unofficial rate. One Turkmen news agency reported that 76% of this total 'belonging to the hydrocarbon sector and some other branches' would belong to the 'second tier' – thus not recorded in the main budget.⁷³

The Turkmen Central Bank account in Germany

In an interview with Global Witness, former Turkmen Central Bank chairman Khudaiberdy Orazov stated that the Turkmen Central Bank has one main government account with various correspondent accounts held in banks around

at Deutsche Bank in Frankfurt. Global Witness has seen a document which confirms that such an account does exist at Deutsche Bank.

The document is a contract signed in 2002 between the Turkmen and Ukrainian state oil and gas companies concerning Ukraine's gas purchases from Turkmenistan. It reveals that the Turkmen state account is held at Deutsche Bank in Frankfurt. This type of account is named a 'Nostro' account, one held at a bank for a foreign government. The contract, signed by former Turkmen deputy prime minister Yolly Gurbanmuradov (now jailed, see box: *Chaos at the Central Bank*), states that payment for Turkmenistan's gas will go to:

Central Bank of Turkmenistan, Ashgabat.
Acc # 949924500,
Deutsche Bank AG,
Frankfurt-am-Main, Germany.

The contract stipulates that 50% of the contract, from the years 2002 to 2006, is to be paid in cash to the value of US\$840 million, with 50% to be supplied in barter goods worth the same amount.⁷⁵

5.8. Платежи по валютной части осуществляются путем перевода денежных средств на валютный счет Продавца по следующим реквизитам:
Центральный Банк Туркменистана, г. Ашгабат, Туркменистан,
account № 949924500 with DEUTSCHE BANK AG, Frankfurt-am-Main, Germany TAUNUS ANLAGE 12-21.60262, SWIFT: DEUTDEFF

The off-budget funds

Numerous sources also point to a number of related foreign-currency funds that were established by presidential decree, and are under the President's personal control. These funds also appear to be held at Deutsche Bank, though it is not clear whether this money is deposited in the main Turkmen Central Bank account or elsewhere. The largest of these are the Foreign Exchange Reserve Fund (FERF) and the Oil & Gas Development Fund (OGDF).⁷⁷

These funds are closely linked to the country's natural resource exports: well-informed sources explained to Global Witness that the FERF receives 50% of all hard currency gas revenues and 30% of all oil and cotton revenues as a tax.⁷⁸ The OGDF receives 25% of the gas money, with the remaining 25% put directly back into the industry's infrastructure.⁷⁹ This reveals a startling fact: it would appear that almost none of the revenues from Turkmenistan's gas sales are accounted for in the country's budget.

By examining the details given above in the 2002 gas contract between Ukraine and Turkmenistan, it is possible to approximate the totals flowing into these funds. The contract, worth US\$1.6 billion, is split 50:50 into barter and cash payments, worth US\$840 million each. If the sources who spoke to Global Witness are correct, this would mean that 50% of this – US\$420 million – would be allocated yearly to the FERF and 25% – US\$210 million – to the OGDF.

The gas supply contract with Turkmenistan has since been renegotiated, with the most recent deal featuring Swiss-registered company RosUkrEnergo (see section: *The gas transit and trading companies*) buying the majority of Turkmen gas from Gazprom's export arm Gazexport which pays Turkmenistan in cash, with no barter component. This means that this year Turkmenistan will receive over US\$2 billion for its gas, with US\$1 billion allocated to the FERF.

It is unclear how much remains in the Turkmen Central Bank account at Deutsche Bank and in funds such as the FERF, and how much is spent, since revenues accrued in the FERF are not accounted for in the state budget.⁸⁰

Buried money is of no use to you or society. That will only add to your fears, hesitations and doubts. It will ultimately cause problems for you.

*Saparmurat Niyazov*⁷⁶

Orazov told Global Witness that, in 2003, he thought that some US\$1.8 billion was held in Deutsche Bank. This approximate figure was confirmed by a source in an international financial institution in 2005, who stated that this money was in the FERF.⁸¹ Orazov also stated that another US\$1 billion was held in a correspondent account in a bank in Switzerland, bringing the total to US\$2.8 billion, by his calculation. The EBRD's last estimate of Turkmenistan's foreign reserves, 'most of which is known to be accumulated in the FERF' was US\$2.6 billion in 2004, citing the Turkmen Central Bank.⁸²

The Foreign Exchange Reserve Fund: Niyazov's 'Presidential' Fund

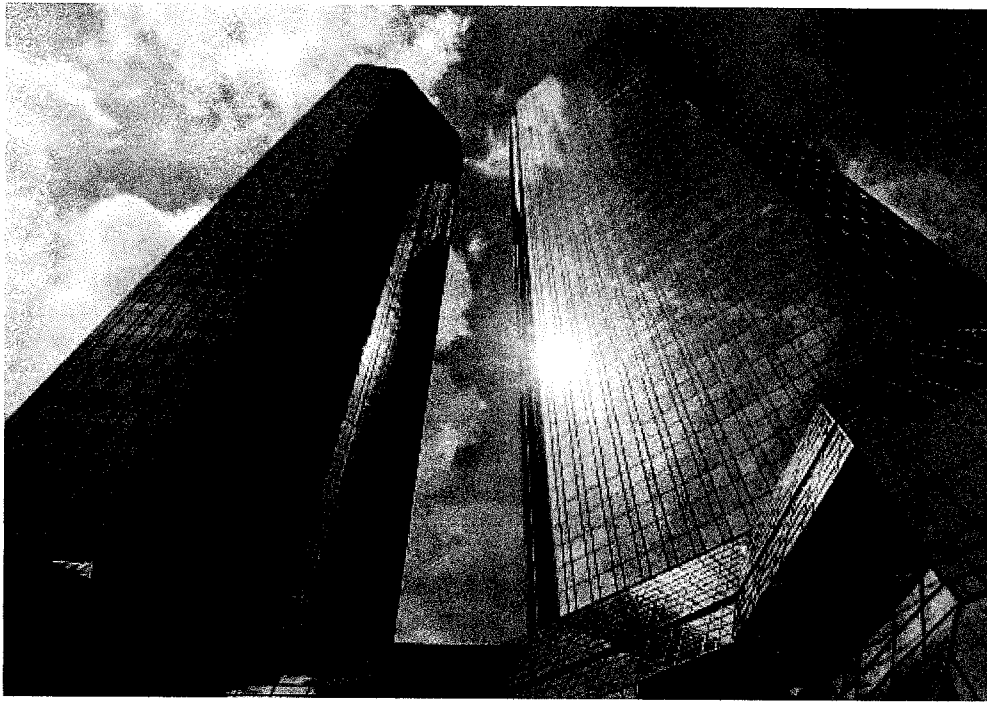
Niyazov told the IMF in 2004 that 'Turkmenistan has no secrets',⁸³ yet little is known about the FERF. Multiple sources have however confirmed to Global Witness that this billion-dollar fund is located at Deutsche Bank in Frankfurt.

According to Khudaiberdy Orazov, who was crucial in setting up the account holding Turkmenistan's foreign currency reserves, the origins of the FERF date back to the final two years of the Soviet Union, when the Turkmen authorities were prompted by an epidemic in Turkmenistan's Dashoguz region to obtain a general licence from the Soviet Central Bank that allowed them to manage foreign currency at their own Turkmen commercial bank.

In 1992, the money was moved to Turkmenistan's Vnesheconombank, and then to the Central Bank of Turkmenistan in July 1993, with the government retaining control of the account, as confirmed by the IMF.⁸⁴ Around 1995, according to Orazov, the money then moved to Deutsche Bank, the first European bank to agree to hold Turkmenistan's money, at its main headquarters in Frankfurt. Following this final move, Orazov maintains, Niyazov established control over these funds.⁸⁵

It is not clear how many signatures are required to transfer money from the FERF and other funds, but many sources from the international financial community and others in a position to know have told Global Witness that they are directly controlled by the president alone. Though the Central Bank chairperson is a key figure in the disbursing of such funds, he or she is under Niyazov's orders and can be fired at any time (and frequently has been, see box: *Chaos at the Central Bank*).

The chairman of the Oil and Gas Development Fund is also



Deutsche Bank, Frankfurt, holds Turkmenistan's gas money under Niyazov's effective control.

Getty images/Ralph Oriwoski

pointed acting director of the fund. Until recently the director was the then-minister for oil and gas, Guychnazar Tachnazarov.⁸⁶ It is currently Geldimurat Abylov – the former first deputy head of the Turkmen Central Bank, highlighting the close link between Turkmen politics, its oil and gas and the country's foreign reserves.⁸⁷ Niyazov, by contrast, is accountable to nobody. One man's sole control over state funds is unusual practice indeed.

Countries with plentiful natural resources often establish such extra-budgetary funds, but these should be fully audited, transparent entities. As the IMF recommends in its Guide to Resource Revenue Transparency: 'All resource revenue-related transactions, including through extra-budgetary funds, [should be] clearly identified, described, and reported in the budget process and final accounts documents ... A basic principle in each case is that the tax payments are under the supervision of the relevant tax authorities, and all transactions are included in the budget (or related) analytical presentations.'⁸⁸

Yet formal accounting structures are absent from the FERF. It is controlled and can be accessed only by President Niyazov⁸⁹ and is even referred to as 'the presidential fund' by insiders who spoke to Global Witness.⁹⁰ Because of this, former Turkmen Central Bank Chairman Khudaiberdy Orazov, now the head of an opposition party in exile, told Global Witness that, for all intents and purposes, money accumulated in Deutsche Bank, ostensibly held in a state account, is Niyazov's own, referring to this account as Niyazov's

'personal pocket money'.⁹¹ Though Orazov is now in opposition to Niyazov, his information is backed up by other independent sources from the international financial community that have confirmed that the lavish construction developments and 'prestige projects', including Niyazov's golden statues and palaces, are funded by the FERF,⁹² and thus, by extension, the sale of Turkmenistan's natural resources.

A source from the international financial community told Global Witness that as well as financing prestige projects, the FERF is sup-

posed to fulfil the function of a savings fund for future generations. However, the source added, no investment plan is prepared and the FERF has no explicit sector priorities.⁹³

All major international financial institutions pinpoint the FERF as being of particular concern. The World Bank will not provide new loans until the Turkmen government puts in place 'a transparent system of public resource management that can direct public resources to priority uses'.⁹⁴ As outlined in its policy strategy for Turkmenistan, the EBRD has refused to fund private investments in the production and export of oil and gas which are linked to the FERF.⁹⁵

There is nothing inherently wrong with a government keeping public funds in overseas bank accounts, and Global Witness does not suggest that Deutsche Bank has broken any laws by taking the deposit of Turkmen public funds. However, there is a clear ethical concern, as, in practice, the person with ultimate control over these funds is President Niyazov, a repressive dictator who is entirely unaccountable to his own people for what he does with their money.

It is hard to reconcile Deutsche Bank's role in managing Turkmenistan's money, which is under Niyazov's effective control, with the long-term interest of Germany in promoting stability in Central Asia. Global Witness wrote to Deutsche Bank seeking reassurance that Turkmen government accounts at the bank have only been used for legitimate public purposes; we are disappointed that Deutsche Bank chose not to reply.

Germany needs to address the question of its banks' business relations with Turkmenistan: data from the Bank of International Settlements shows banks in Germany to be the largest reporting lender to Turkmenistan, with US\$723 million in outstanding repayments in December 2004.⁹⁶ What is the ethical justification for German banks to provide such enthusiastic support to a regime which treats its own citizens with cruelty? Is it wise, given the growing risks of instability and state failure in Turkmenistan, for the German government to turn a blind eye to the role of the German financial system in managing Turkmenistan's finances?

Global Witness believes it is vital to determine that Turkmen official funds on deposit in Germany and other European banks have not been misused by Niyazov. There is currently no way for a Turkmen citizen or any other concerned observer to find this out. And the Turkmen rules and regulations are clearly not a meaningful check on Niyazov because he has absolute control. Banking secrecy is not an excuse for ignoring the implications of helping a repressive megalomaniac to keep control of his country's finances.

US\$41 million missing from the Turkmen Central Bank

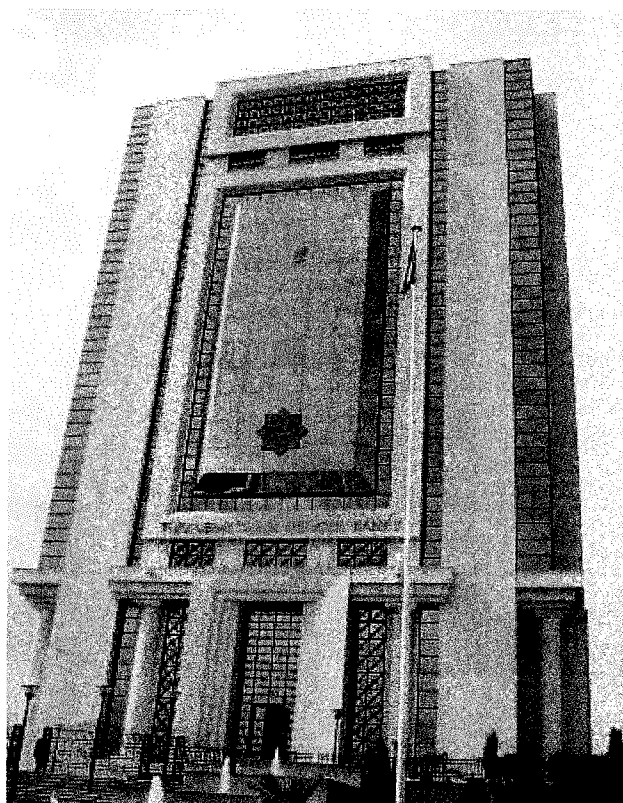
Concerns over the management of such large amounts of money grew, when, in September 2002, more than US\$41 million went missing from the Turkmen Central Bank. Niyazov called for an investigation and criminal proceedings to be brought against those responsible for the alleged theft. Niyazov stated on television that no-one, apart from presumably himself, would then be allowed to control state funds.⁹⁷ Deutsche Bank was absolved of all blame by the Turkmen authorities.

Investigations by Russia's public prosecutor suggested that a group of people from Turkmen and Russian banks illegally used an electronic system of payments and transferred the millions from the Central Bank of Turkmenistan to banks in Russia and Latvia.⁹⁸ One of the alleged Turkmen thieves was found stabbed to death in a St Petersburg apartment.⁹⁹ Two other men (a Russian banker and a Turkmen Central Bank employee) were accused of aiding the thieves and stood trial in Moscow in 2004.

Court documents seen by Global Witness reveal new information concerning the crime and the Turkmen Central Bank account at Deutsche Bank. The prosecution claimed that money had been stolen over a number of months from various funds; US\$3.75 million had allegedly been diverted via a contract with the Oil & Gas Development Fund at Deutsche Bank. In total, it claimed that just over US\$41

million had disappeared: however, it could not be confirmed that US\$20 million of this money even belonged to the Turkmen state because the Turkmen authorities failed to provide any information to the court which would corroborate its origin. The court's final sentence document, seen by Global Witness, states: 'The conclusion of the investigation that the funds belonged to the budget of the Republic [of Turkmenistan] is based only on suppositions, and cannot be considered an established fact just on the basis of witness' testimony and confirmations by investigative organs of another government ... the victim was not established, and during the trial nobody testified to being the victim.'¹⁰⁰

Furthermore, the Turkmen authorities did not provide the prosecution with such vital information as copies of the allegedly fraudulent 'Swift' transfers, the system used to transfer money between accounts. Without these it was impossible to show that money had indeed been embezzled. The sentencing document continues: 'The prosecution did not present written evidence to the court that the fact that the transferring of funds from the account at the Central Bank of Turkmenistan had taken place.'¹⁰¹ The Russian banker was found guilty and received a jail sentence for money laundering – knowing that the money he transferred had been unlawfully gained. However, without a victim or direct evidence of embezzlement, both the banker and the Turkmen Central Bank employee were found not guilty on

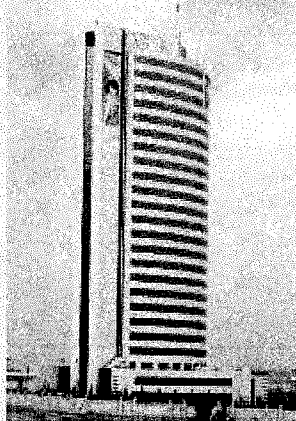


Turkmenistan's central bank is 180m more than a friend.

Chaos at the Central Bank, chaos in the gas sector

Khudaiberdy Orazov was the chairman of the Central Bank from 1993 to 1999; in 2000, Niyazov dismissed him from all government positions for 'serious shortcomings in his work'¹⁰³ (a common reason for many of the government firings over the years). In 2002, he fled Turkmenistan and became an opposition party leader. Since then, Niyazov's increasingly erratic hiring and firing of Central Bank chairmen (three people held the position in 2002 alone) indicate not only that its management is completely at odds with a stable economy, but also that he has complete control over state financial flows.

Seitbay Gandymov was Orazov's successor at the Central Bank, but was dismissed in May 2002, for 'making serious mistakes' and allegedly transferring funds to his relatives, according to Niyazov.¹⁰⁴ His successor, 34-year old Imamdurdy Gandymov (no relation to Seitbay), lasted less than six months. He was sacked for alleged involvement in the case of the missing US\$41 million from the Deutsche Bank account.



Turkmen Gas HQ. Global Witness

His public dismissal on television was a prime example of Turkmenbashi man-management; as Imamdurdy wept and wiped his nose with a handkerchief, Niyazov berated him: 'Come here ... We appointed you, young lad, to the chairmanship ... From the first day I warned you, "Look Imamdurdy, be careful, take some measures to clean it out." However, instead of this you have made it an even dirtier place ... You will get at least 20 years. Just you yourself imagine – your children, you have relatives too – ... Why have you been carrying out money transactions in Frankfurt?'¹⁰⁵ Both Gandymovs have been jailed; neither has been heard from since their incarceration.

For three years, there was no proper Chairperson of the Central Bank; until 2005, Sekersoltan Mukhammedova was the 'acting' head.¹⁰⁶ But she too was dismissed in May 2005, for allegedly 'conspiring criminally' with former deputy prime minister in charge of the oil and gas sector, Yolly Gurbanmuradov, the man who signed gas contracts on behalf of Turkmenistan.¹⁰⁷ As this report goes to press, it is unclear what has happened to Gurbanmuradov, Niyazov's former 'number two', who was sentenced to 25 years in jail in June 2005¹⁰⁸ but was not present in court hearings.

Following Gurbanmuradov's arrest, Niyazov purged many top officials, including many from Turkmenistan's oil and gas sector. Sackings were announced by Niyazov via state media, with jail sentences confirmed on television by Turkmenistan's prosecutor general. Facts concerning the conduct of these trials cannot be ascertained. Yet in 2004, the US Department of State described Turkmenistan's judicial system as controlled by the President himself and expressed its concern over 'unfair trials.'¹⁰⁹

Ilyas Chariev, the head of Turkmenistan's oil and gas trading body, was sacked in June 2005¹¹⁰ and sentenced three months later to 25 years imprisonment for various crimes.¹¹¹ In July, the former head of Niyazov's presidential administration, Rejep Saparov, was found guilty of a range of crimes and sentenced to 20 years imprisonment.¹¹² In August, Saparmamed Valiev, the head of Turkmenistan's state oil company, was sacked due to 'serious deficiencies in his work and abuse of office'¹¹³ and jailed for 24 years.¹¹⁴

At the end of October, Guychnazar Tachnazarov, the former director of the Oil and Gas Development Fund, and Gurbanmuradov's replacement as minister in charge of gas and oil, was also sacked for 'grave shortcomings'.¹¹⁵ At the same time the Turkmen ambassador to Ukraine, Amengeldi Bairamov, was recalled.¹¹⁶ A few days later, Niyazov sacked Allamurat Ovezov, the head of the Turkmen gas concern, who was appointed only in June, accusing him of bribe-taking and other abuses of office. The timing of these many sackings led some commentators to link them to a Ukrainian criminal investigation into intermediary companies trading in Turkmen gas (see section: *The criminal investigation that never was?*). The fact that Turkmenistan's national security minister stated in June that Gurbanmuradov had been charged in connection with having ties to foreign intelligence services on 'ways of selling cheap oil and gas abroad' may confirm this.¹¹⁷

Who now remains with the expertise to run Turkmenistan and its gas industry? In August, it was announced that Niyazov had appointed a former bodyguard as one of Turkmenistan's new deputy prime ministers.¹¹⁸

The Republic of Turkmenistan has surpassed in a month the distance which would normally be crossed in a year. It has been observed that Turkmenistan is progressing towards being a rich and developed country. All have seen this, friends, foreigners, even the blind!

*Saparmurat Niyazov*¹¹⁹

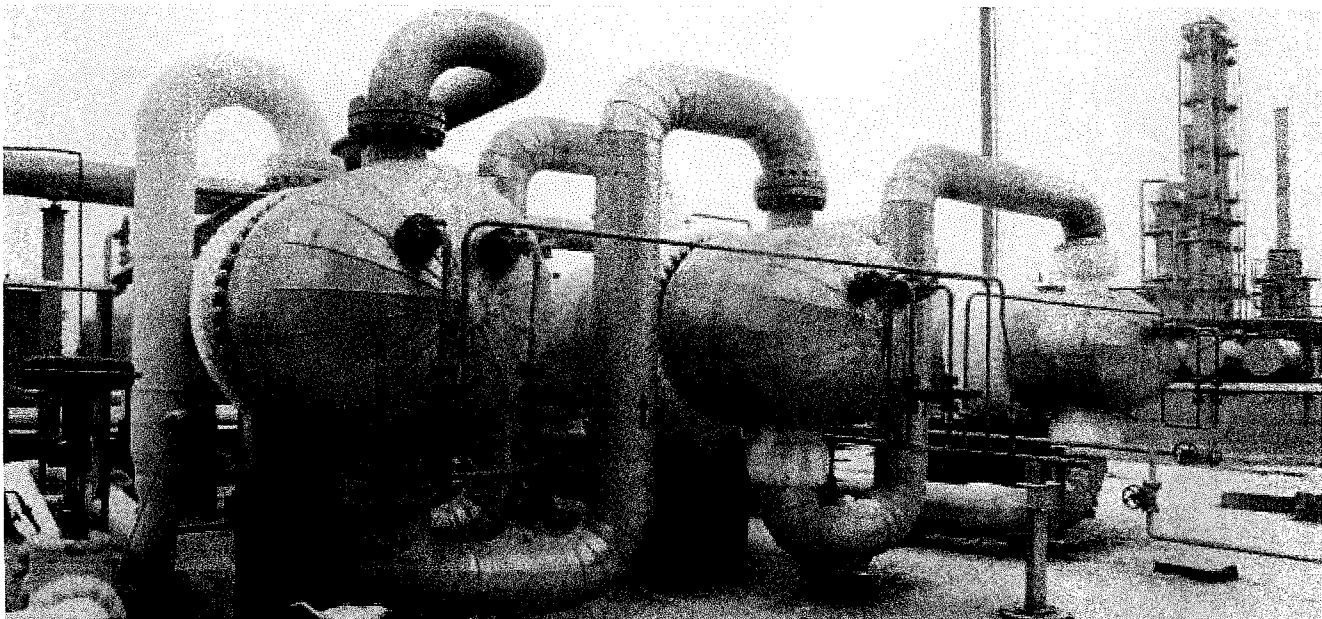
the greater charge of embezzlement by means of fraud and commercial bribery.¹⁰²

Due to the lack of forthcoming information from the Turkmen authorities, approximately US\$20 million was never recovered. This is an alarming indictment of Turkmen opacity: it appears that the authorities would rather impede a successful prosecution than afford scrutiny of their accounting practices by disclosing relevant evidence, a shining example of incompetence and possible corruption in Turkmenistan, which does nothing to ease fears concerning Saparmurat Niyazov's personal control over such funds and the competence of his management.

In conclusion, President Saparmurat Niyazov's complete control of virtually every aspect of Turkmen life and its governance has produced one of the most totalitarian states in the world. No free expression is tolerated, the nation's youth is being raised on study of the president's *Rukhnama*, and citizens not of 'pure' Turkmen extraction are being increasingly ostracised. To fund his increasingly bizarre personality cult, he appears to be using proceeds from the sale of his country's gas and oil. This money that rightly belongs to the people of Turkmenistan is being held out of sight and offshore in various funds such as the Foreign Exchange Re-

serve Fund at Deutsche Bank, Frankfurt. This money is not included in the Turkmen budget and is controlled directly by Niyazov. Worse, this apparent personal control of state funds seems to be leaving an ever larger hole in state finances, as shown by the recent cutbacks on state pensions and in Turkmenistan's healthcare system. The true situation of the Turkmen economy is impossible to judge, due to the authorities' secrecy, widespread use of off-budget funds, and confusion over the dual exchange rate. In short, Turkmenistan is in grave danger of becoming a fully-fledged failed state. In such a volatile area as Central Asia, the consequences of this are worrying to say the least.

As the EBRD recommends, 'for the long-term sustainability of Turkmenistan's economic development, the FERF needs to be transformed into a proper stabilisation fund, with some proportion of it saved for future generations. Critical for the operation of such a fund ... would be proper accounting of all financial flows, as well as the requirement to disclose all operations to the public.'¹²⁰ The current Turkmen government is unlikely to put the EBRD's recommendations into practice for the good of its people. The international community must therefore hold the Turkmen government to account on the issue of proper accountability of the management of its state funds.



2. Ukraine



Maidan Square, one year on: the euphoria of the Orange Revolution has cooled. *Global Witness*

Ukraine has been Turkmenistan's main gas export partner for the last 12 years.¹²¹ Although Ukraine produces some of its own gas, it imports some 50% (around 40 billion m³) of its demand from Turkmenistan.¹²²

Turkmenistan also exports some gas to Russia, the world's largest gas exporter. Over 80% of Russian gas exports to Western Europe has to go through Ukraine,¹²³ a fact that poses difficult questions for the continent's energy security, as many countries discovered at the beginning of 2006 when Russia shut off its gas supply to Ukraine. In 2004, some 100 billion m³ of Turkmen and Russian gas was ex-

ported to Western Europe, representing over a quarter of natural gas imports into the continent.¹²⁴ Turkmenistan is vital for Ukraine's gas supply, which is in turn fundamental to Europe's supply. If gas supply from Turkmenistan to Ukraine was disturbed for a long period, Europe would experience a harmful knock-on effect.

Back in the early 1990s, analysts considered Ukraine well positioned to make a successful transition to a free market economy because of its geographic location between Eastern Europe and Russia. Yet, the Ukrainian economy did not record a single year of growth until 2000,¹²⁵ at which point

I cannot help paying attention to the fuel and energy complex, because the situation there has crucial importance for the economic and political stability of the state, for the economic development and life of the people. Unfortunately, this key sector is the most criminalised, according to the opinion of all experts. It is also too politicised.

Former President of Ukraine Leonid Kuchma, speaking in 2000